

## Internal Revenue Service

## Department of the Treasury

Washington, DC 20224

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CC:PSI:B04

PLR-113779-13

Date: SEPTEMBER 13, 2013

In Re:

### LEGEND:

Donor A =

Donor B =

Certified Public

Accountant =

Trust A =

Trust B =

Children's Trusts =

Date =

Year 1 =

Year 2 =

Year 3 =

Year 4 =

Year 5 =

Year 6 =

Year 7 =

Dear :

This letter responds to the submission dated March 20, 2013, requesting an extension of time pursuant to § 2642(g) of the Internal Revenue Code and § 301.9100-3 of the

Procedure and Administration Regulations to elect out of the generation-skipping transfer (GST) tax exemption automatic allocation rules.

Donor A and Donor B are spouses. On Date, a date prior to January 1, 2001, Donor A created Trust A, an irrevocable trust, and funded it with cash. On the same date, Donor B created Trust B, an irrevocable trust, and funded it with cash. The trustees of Trust A purchased policies on the life of Donor A. The trustees of Trust B purchased policies of insurance on the life of Donor B.

The provisions of Trust A and Trust B are virtually identical. Under Article III of both trusts, during the life of Donor A and the life of Donor B, the trustees are to hold the respective life insurance policies and pay from the income and principal thereof the premiums on those policies as they become due. The trustees may pay the excess income and principal to or for the benefit of Donor A's and Donor B's then living issue. Under Article V, on the death of the survivor of Donor A and Donor B, the trustees are to distribute the trust property in equal shares to irrevocable trusts (Children's Trusts) held for the benefit of their children and the children's descendants.

From Year 1 through Year 7, Donor A made additional cash gifts to Trust A. In addition, Donor A made cash gifts to Trust B in Year 5, Year 6, and Year 7. Donor B elected pursuant to § 2513 to split the gifts made by Donor A in Year 3 through Year 7.<sup>1</sup> Donor B made additional cash gifts to Trust B in Year 1 and Year 2 and again in Year 4. Donor A elected to split the gift made by Donor B in Year 4. Year 1 through Year 3 are years preceding January 1, 2001. Year 4 and the succeeding years are years after December 31, 2000.

Federal gift tax returns were filed reporting the transfers in Year 1 through Year 7. Neither Donor A nor Donor B elected to allocate any portion of his or her GST exemption on any of the returns. Certified Public Accountant prepared the returns filed for Year 3 through Year 7. He did not inform Donor A and Donor B of the application of the deemed allocation rules of § 2632(c) to transfers made after December 31, 2000.

Recently, Donor A and Donor B learned that under the deemed allocation rules, GST exemption was allocated to their transfers to Trust A and Trust B made after December 31, 2000, and that to avoid the allocation of GST exemption to a GST trust, a taxpayer must affirmatively elect out. Donor A and Donor B now seek a ruling granting an extension of time to elect out of the automatic allocation rules with respect to their transfers to Trust A and Trust B made in Year 4 through Year 7.

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<sup>1</sup> Under § 2513(a)(1), if both spouses have signified their consent, a gift made by one spouse to any person other than his spouse shall, for purposes of the gift tax, be considered as made one-half by him and one-half by his spouse.

Section 2601 imposes a tax on every generation-skipping transfer. A generation-skipping transfer is defined under § 2611(a) as (1) a taxable distribution, (2) a taxable termination, and (3) a direct skip.

Section 2602 provides that the amount of the tax imposed by § 2601 is the taxable amount multiplied by the applicable rate. Section 2641(a) defines the applicable rate as the product of the maximum federal estate tax rate and the inclusion ratio with respect to the transfer. Under § 2642(a)(1), the inclusion ratio with respect to any property transferred in a generation-skipping transfer is the excess (if any) of 1 over the applicable fraction. The applicable fraction, as defined in § 2642(a)(2), is a fraction, the numerator of which is the amount of the GST exemption under § 2631 allocated to the trust (or to property transferred in a direct skip), and the denominator of which is the value of the property transferred to the trust or involved in the direct skip.

Section 2631(a), as effective in the year at issue, provided that, for purposes of determining the inclusion ratio, every individual shall be allowed a GST exemption of \$1,000,000 (adjusted for inflation under § 2631(c)) which may be allocated by such individual (or his executor) to any property with respect to which such individual is the transferor. Section 2631(b) provides that any allocation under § 2631(a), once made, shall be irrevocable.

Section 2632(c)(1) provides that if any individual makes an indirect skip during such individual's lifetime, any unused portion of such individual's GST exemption shall be allocated to the property transferred to the extent necessary to make the inclusion ratio for such property zero. If the amount of the indirect skip exceeds such unused portion, the entire unused portion shall be allocated to the property transferred.

Section 2632(c)(3)(A) provides that, the term "indirect skip" means any transfer of property (other than a direct skip) subject to the tax imposed by chapter 12 made to a GST trust, as defined in § 2632(c)(3)(B). Under § 2632(c)(5)(A)(i)(I) and (II), an individual may elect to have the automatic allocation rule in § 2632(c)(1) not apply to an indirect skip, or to any or all transfers made by such individual to a particular trust.

Section 2632(c)(5)(B)(ii) provides that an election under § 2632(c)(5)(A)(i)(II) may be made on a timely filed gift tax return for the calendar year for which the election is to become effective.

Section 26.2632-1(b)(2)(iii)(B) of the Generation-Skipping Transfer Tax Regulations provides, in relevant part, that, to elect out, the transferor must attach a statement (election out statement) to a Form 709 filed within the time period provided in § 26.2632-1(b)(2)(iii)(C) (whether or not any transfer was made in the calendar year for which the Form 709 was filed, and whether or not a Form 709 otherwise would be

required to be filed for that year). The election out statement must identify the trust (except for an election out under § 26.2632-1(b)(2)(iii)(A)(4)) and specifically must provide that the transferor is electing out of the automatic allocation of GST exemption with respect to the described transfer or transfers. Further, unless the election out is made for all transfers made to the trust in the current year, the current-year transfers to which the election out is to apply must be specifically described or otherwise identified in the election out statement.

Section 26.2632-1(b)(2)(iii)(C) provides, in relevant part, that to elect out, the Form 709 with the attached election out statement must be filed on or before the due date for timely filing (within the meaning of § 26.2632-1(b)(1)(ii)) of the Form 709 for the calendar year in which the first transfer to be covered by the election out was made.

Section 2642(g)(1)(A) provides, generally, that the Secretary shall by regulation prescribe such circumstances and procedures under which extensions of time will be granted to make an allocation of GST exemption described in § 2642(b)(1) or (2), and an election under § 2632(b)(3) or (c)(5). Such regulations shall include procedures for requesting comparable relief with respect to transfers made before the date of the enactment of this paragraph.

Section 2642(g)(1)(B) provides that in determining whether to grant relief under § 2642(g)(1), the Secretary shall take into account all relevant circumstances, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant. For purposes of determining whether to grant relief, the time for making the allocation (or election) shall be treated as if not expressly prescribed by statute.

Section 2652(a)(2) provides, in relevant part, that if, under § 2513, one-half of a gift is treated as made by an individual and one-half of such gift is treated as made by the spouse of such individual, such gift shall be so treated for GST tax purposes.

Notice 2001-50, 2001-2 C.B. 189, provides that, under § 2642(g)(1)(B), the time for allocating the GST exemption to lifetime transfers and transfers at death, the time for electing out of the automatic allocation rules, and the time for electing to treat any trust as a generation-skipping transfer trust are to be treated as if not expressly prescribed by statute. The Notice further provides that taxpayers may seek an extension of time to make an allocation described in § 2642(b)(1) or (b)(2) or an election described in § 2632(b)(3) or (c)(5) under the provisions of § 301.9100-3.

Sections 301.9100-1 through 301.9100-3 provide the standards the Commissioner will use to determine whether to grant an extension of time to make an election. Section 301.9100-1(a).

Section 301.9100-2 provides an automatic extension of time for making certain elections. Section 301.9100-3 provides the standards used to determine whether to grant an extension of time to make an election whose date is prescribed by a regulation and not expressly provided by statute). In accordance with § 2642(g)(1)(B) and Notice 2001-50, taxpayers may seek an extension of time to make an allocation described in § 2642(b)(1) or (b)(2) or an election described in § 2632(b)(3) or (c)(5) under the provisions of § 301.9100-3.

Section 301.9100-3(a) provides, in part, that requests for relief subject to § 301.9100-3 will be granted when the taxpayer provides the evidence to establish to the satisfaction of the Commissioner that the taxpayer acted reasonably and in good faith, and the grant of relief will not prejudice the interests of the Government.

Section 301.9100-3(b)(1) provides, in part, except as provided in § 301.9100-3(b)(3)(i) through (iii), that a taxpayer is deemed to have acted reasonably and in good faith if the taxpayer reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

Based on the facts submitted and the representations made, we conclude that the requirements of § 301.9100-3 have been satisfied. Accordingly, Donor A and Donor B are granted an extension of time of 120 days from the date of this letter to make an election under § 2632(c)(5)(A)(i)(II) that the automatic allocation rules do not apply to their transfers to Trust A and Trust B made after December 31, 2000. The election out will be effective as of the dates the respective returns were filed. The elections should be made on Forms 709, and filed with the Internal Revenue Service Center, Cincinnati, Ohio 45999. A copy of this letter should be attached to each Form 709. Two copies are enclosed for that purpose.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent. In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Leslie H. Finlow  
Senior Technician Reviewer, Branch 4  
Office of Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosures  
Copy for § 6110 purposes